

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF OKLAHOMA**

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In re: : Chapter 9
PAULS VALLEY HOSPITAL AUTHORITY, : Case No. 13-10791
Debtor. : Judge Hall
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STATUS REPORT

(For April 2014)

Pauls Valley Hospital Authority d/b/a Pauls Valley General Hospital (“Debtor”) hereby submits this status report pursuant to the minute order entered by the Court on October 13, 2013 [Docket No. 200], and advises the Court and parties-in-interest of pertinent developments in this Chapter 9 bankruptcy case. To this point, Debtor has submitted status reports on or about the 15th day of the month since December 2013. Debtor’s course of action with respect to these status reports has been to file updated reports with new matters being added to the end of the same. As multiple status reports have been filed, this approach has proved cumbersome and going forward only material new matters will be reported. Anyone desiring to understand past events may look at Debtor’s previously-filed status reports, which may be found on this Court’s docket at Docket Nos. 220, 247, 258, and 265. The information contained in those past reports as well as any previously defined terms are incorporated herein.

Recent Events

1 Debtor, through its various retained professionals, continues with its efforts to turn the hospital around. Debtor’s manager, NewLight, has put forth a detailed 90-plan for the

hospital. This 90 day plan should put the hospital on solid footing for operations in the future. All proposals must be considered and approved by the members of the Authority.

2 Since January of this year, Debtor has operated at a significant loss. Those losses have been covered by the remaining original loan proceeds made available to Debtor by the City of Pauls Valley and the additional loan proceeds obtained last month in the approximate amount of \$1.1 million. As a result, Debtor is currently operating solely on cash flow from operations.

3. In light of these circumstances, Debtor directed NewLight, the manager of Debtor's hospital, to propose a comprehensive plan to ensure that the hospital's revenues are sufficient to cover its costs. At the meeting held April 8, 2014, the governing body of Debtor voted to implement many of the proposals recommended by NewLight, including winding down Debtor's home health business, terminating its agreements for agency staffing of nurses (and reassigning hospital nurses to cover for such services), transitioning the current arrangement for emergency room coverage by doctors, and termination of the Mark 5 hospitalist. Although it will take some time for full implementation of these programs, the projected cost savings are estimated to be substantial, and more consistent with the present level of operations and needs of the hospital.

4. In addition, NewLight proposed additional measures to increase revenue, particularly with Debtor's surgery capabilities. Since December 2013, the hospital has voluntarily suspended surgery procedures at the hospital because of high moisture and humidity in the surgery suite of the hospital. NewLight has proposed a remedial plan that has recently been approved by the appropriate regulatory bodies and it is expected that construction improvements and new HVAC equipment will be substantially completed and installed by September of this year. The addition of fully functional surgical suite is projected to provide substantial additional

revenue to Debtor, while at the same time restoring a vital hospital function. The costs associated with this restoration of the hospital's surgical suite and improvements will be underwritten by funds generated by the 1/2 cent sales tax recently approved by the City of Pauls Valley.

5. The financial projections of these combined cost-cutting and revenue increasing measures show that Debtor will operate close to breakeven beginning in September of this year assuming revenue and expenses remain at their current levels. In order to get to September, however, Debtor will have to absorb substantial projected losses in April through August 2014. Debtor is looking at its options for covering this cash shortfall, including a possible loan backed by the 1/2 cent sales tax measure that was recently passed by the City of Pauls Valley.

6. NewLight has also made changes to the day-to-day management of the hospital. The interim-CEO, Jim Clough, has been replaced by John Dolan, an employee of NewLight. Mr. Dolan holds a master's degree in economics and statistics from Texas Tech University. Throughout his career Mr. Dolan has been successful in improving hospital operations, enhancing physician relations, and establishing high standards for quality and patient care. Mr. Dolan worked with Covenant Health System for more than 13 years in multiple roles including CFO and COO for Covenant Hospital in Levelland, Texas (a 48-bed acute care facility). With a background in finance, investing, financial planning, and accounting, John brings experience and additional financial expertise to Debtor.

7. During this time, Debtor has also been working with the Department of Health and Human Services ("HHS") with respect to RAC audits and recoveries against Debtor for alleged pre-petition overpayments for services covered by Medicare and Medicaid. HHS contracts with third parties who periodically review past payments from Medicare and Medicaid to hospitals like the one operated by Debtor and propose "take-backs" from current billings for

overpayments. Based upon a preliminary review, it appears that HHS and/or its agents have setoff approximately \$147,000 of current payments arising from alleged overpayments for charges incurred prior to March 1, 2013, the day Debtor filed its voluntary petition for relief under Chapter 9 of the Bankruptcy Code. As a general matter, a majority of courts, including this Court, have held that HHS cannot withhold payments, post-petition, for alleged overpayments made pre-petition, and that such withholding violates the automatic stay imposed by § 362 of the Bankruptcy Code. *See, e.g., In re Healthback, LLC*, 226 B.R. 464 (Bankr. W.D. Okla. 1998); *see also In re University Medical Center*, 973 F.2d 1065 (3d Cir. 1992). Debtor, though its professionals have been working with counsel for HHS on these issues, which are very preliminary in nature.

8. As can be seen, the governing body of Debtor, with the help of retained professionals, continues the difficult task of turning around and restoring the hospital to provide the full complement of medical services and reducing operational losses. In previous reports, Debtor submitted that a proposed plan of adjustment could be filed in the second quarter of this year. Although Debtor believes that a plan can still be filed in this period of time, it may be required, based upon the recent decisions of Debtor noted above, that a plan be filed in the third quarter of this year.

9. Debtor will submit its next report on May 15, 2014, and report on Debtor's efforts concerning these and other important developments.

MCDONALD, MCCANN,
METCALF & CARWILE, LLP

/s/ Chad J. Kutmas

By:

Chad J. Kutmas, OBA No. 19505
15 E. Fifth Street, Suite 1800
Tulsa, OK 74103
(918) 430-3700
(918) 430-3770 (Fax)
ckutmas@mmmsk.com

Attorneys for Pauls Valley Hospital Authority